United Nations DP/2000/37

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
23 August 2000

Original: English

Third regular session 2000
25 to 29 September 2000, New York
Item 6 of the provisional agenda
United Nations Office for Project Services

Revised budget estimates for the biennium 2000-2001

Report of the Executive Director

SUMMARY

The revised budget estimates for the biennium 2000-2001 for the United Nations Office for Project Services (UNOPS) are contained in the present document. They have been reviewed by the Management Coordination Committee and submitted to the Advisory Committee on Administrative and Budgetary Questions.

In the revised budget for the biennium 2000-2001, the Executive Director proposes a decrease in total administrative expenditure from $113.8 million to $106.3 million. This revised total consists of two components: (a) recurring expenditures, which amount to $103.2 million, representing a decrease from the approved figure of $110.9 million and (b) non-recurring administrative expenditures of $3.1 million, which represents an increase from the approved amount of $2.9 million. These budget revisions are based on the targeted developments in the UNOPS project delivery and service portfolios detailed in the UNOPS business plan for the biennium.

In addition, as a flexibility provision necessitated by the variable nature of UNOPS' activities, the Executive Director requests the authority, under UNOPS Financial Regulation 7.5, to incur administrative expenditure in an amount not to exceed 5% of the approved budget for the biennium when it is supported by unspent and/or projected income.

The Executive Director also requests approval of the re-classification of two posts from the P-5 to D-1 levels.

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I. INTRODUCTION

1. The present report contains the revised budget estimates for the biennium 2000-2001 for the United Nations Office of Project Services (UNOPS), which are submitted in accordance with Executive Board decision 94/32 of 10 October 1994.

2. Pursuant to UNOPS Financial Regulations, the present budget estimates are being submitted through, and have been approved by, the Management Coordination Committee (MCC) and have been submitted for the comment the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

3. The Executive Director is pleased to report that in 1999, UNOPS again operated in accordance with the self-financing principle of income exceeding regular recurring expenditure. Since the financial management model for preparation, monitoring and review of the UNOPS budget was first introduced in 1995 (in document DP/1995/60, of which the Executive Board took note in its decision 95/31 of 15 September 1995), the Executive Director has consistently maintained the administrative budget in line with the variables of the model, i.e., demand, delivery and related income. The accuracy of the resulting budget estimates, which are established on the basis of income amounts not yet received at the time of preparation, has demonstrated the viability of the model. The Executive

Director will continue to utilize the model, refined as dictated by the business environment in which UNOPS operates.

4. In 1999, UNOPS income exceeded recurrent administrative expenditure by $4.5 million. The recurring administrative expenditure for 1999 totaled $47.4 million compared to an approved budget of $48.1 million while the non-recurring administrative expenditure for that year amounted to $16.7 million compared to the budgeted total of $12.6 million. Therefore, the total administrative expenditure for 1999 totalled $64.1 million. These expenditures are described in more detail in paragraphs 16 through 39.

5. The overall excess of total administrative expenditure over total income for 1999 amounted to $12.1 million compared to the approved estimate of $9.5 million. As a result, the level of the UNOPS operational reserve was reduced to $17.4 million at the end of 1999, or 28 per cent below the prescribed level of $24.3 million. This level is however 55 per cent higher than the level of $11.2 million that was originally approved by the Executive Board in its decision 98/20 of 21 September 1998. This revised budget, which continues to reflect the application of the self-financing principle, indicates that in 2000, income will be at the same level as recurring administrative expenditure, that is, $51.6 million. This, in combination with projected non-recurring expenditures in 2000 totalling $3.1 million, will reduce the balance of the operational reserve to $14.3 million at the end of that year. Based on the revised projections, the balance of the UNOPS operational reserve will remain at the $14.3 million level at the end of the biennium 2000-2001. This compares to the projected total of $25.8 million at 31 December 2001 that would be required under the standards established by the Executive Board in its decision 97/21. A conservative estimate made at this time seems to indicate that the process of restoring the operational reserve to its approved level will begin in the next biennium.

II. REVISED PROJECTIONS OF INCOME AND ESTIMATED BUDGET EXPENDITURES FOR THE BIENNIUM 2000-2001

6. UNOPS bases these revised estimates for the biennium 2000-2001 on the delivery, income and expenditure performance of the biennium 1998-1999 and on the projections of operations divisions put forward in the business planning process. This remains in line with Executive Board decision 97/22.

7. Funds committed by UNOPS clients for the implementation of projects by UNOPS – the "project portfolio" – amounted to $1.2 billion in mid-2000. In addition, UNOPS maintains a "services only" portfolio. These services consist mainly of loan administration and project supervision on behalf of the International Fund for Agricultural Development (IFAD), and are provided for a portfolio valued at $2.2 billion by mid-2000. UNOPS is also providing customized procurement services, mostly involving complex international or national bidding processes, which consist of carrying out the entire procurement process leading to contract signature by the government entity served. During the biennium 1998-1999, the value of the corresponding contracts awarded was in the amount of $338 million. It is foreseen that in the year 2000 it will amount to about $100 million and is anticipated to be sustained at or above this level beyond this year. This level of this sustained activity and income supports the decision by the Executive Director to identify this service separately from 2001. Not counting this last component, for which UNOPS assumes no disbursement responsibility, the current value of all the funds for which UNOPS does assume such responsibility is $3.4 billion.

A. Income

8. The total income to be earned in the 2000-2001 biennium was projected in document DP/1999/39 at $116.5 million; it was on this basis that the administrative budget was established. The revised income projections, reflecting experiences in 1999 and projections deriving from the unit business plans, are now

$103.2 million, a decrease of $13.3 million, or 11 per cent, relative to the approved estimate. An overview of income performance for the biennium 1998-1999 and revised projections for 2000-2001 are provided in table 1, with further analysis and comments included in paragraphs 9 through 15.

1. Income from implementation of the project portfolio

9. In the biennium 1998-1999, actual project delivery totaled $1 097.7 million, which generated an income of $86.5 million. These results are slightly above the $1 087.8 million and $86.4 million forecast respectively for project delivery and income in the approved estimates for the 1998-1999 biennium. In both 1998 and 1999, UNOPS was close to its delivery target. This reflects careful planning in both years to take proper account of the unusually complex operating circumstances UNOPS faced, constituted by the challenge of implementing the Integrated Management Information System (IMIS) and the relocation of headquarters premises while maintaining quality and delivery standards. In the revised estimates for the biennium 2000-2001, total project delivery is projected at $1 180 million, which corresponds to an increase of 7 per cent over the achievements of 1998-1999 but a decrease of 9 per cent over the amount originally forecast. The revised project income estimate for the biennium is $85.4 million compared to $101.3 million in the original forecast and $86.5 million achieved in 1998-1999. The shift in income as a proportion of project delivery reflects the changing mix in the UNOPS project portfolio as UNOPS diversifies both its services and its client base.

10. The revised estimates for 2000-2001 for delivery and income on the project portfolio reflect a reduced income rate compared with the original estimates. As the Executive Director has pointed out in his annual report (document DP/2000/25), a number of significant changes have occurred in the composition of the portfolio acquired in 1999, for which the bulk of delivery will be required in 2000 and beyond. While new project acquisitions from UNDP regular resources and UNDP trust funds, constituting the main component of the development portfolio, decreased by 33 per cent from 1998 to 1999, representing over $150 million in value, the portfolio acquired from other clients of the United Nations system with mandates other than development increased by about $50 million, a doubling in percentage terms. These new project and client acquisitions increasingly reflect a different scope of activities, requiring different resources and hence with different levels of costs and income. The extent of this shift was slightly underestimated when the budget estimates for the biennium 2000-2001 were first submitted, and delivery was overestimated by 9 per cent; in the light of the 1999 performance in acquisitions and delivery, confirmed by acquisition data at mid-2000, it is foreseen that the trend will continue in 2000, thereby affecting the income rate of 2001 in the same manner.

11. As UNOPS pursues this greater diversification of its project portfolio, there is also considerable pressure on the levels of management fees from more traditional projects and clients, hence the trend of lower income for equal delivery volumes. This is reflected in UNOPS' active diversification of its client base with the biennium 2000-2001 likely to turn out to be the period needed to effect the transition from a situation dominated by a single client to one where there is a more equitable and diversified distribution of United Nations clients. As a consequence, fluctuations upwards and downwards in the delivery and income targets, and hence in the budget, will tend to occur more frequently, and possibly, at significant values.

12. For the reasons outlined above, the Executive Director considers it prudent at this time to propose a conservative budget estimate for the year 2000 and a similar figure for 2001. In accordance with the tenets of the UNOPS financial model, the Executive Director will continue to monitor the demand of UNOPS services and the variables of the financial model and adjust the budget estimates accordingly. UNOPS Financial Regulation 7.5 contemplates the need for budget flexibility to respond to more immediate fluctuations in business acquisition that were unanticipated and not otherwise able to be accommodated within the approved budget. This would include personnel-related expenditure, which encompasses by far, the largest portion of the UNOPS administrative budget. To date, in exercising his authority to approve posts up to and including the P-5 level, the Executive Director has managed to incorporate post increases within the overall approved budget. However,

during the current biennium, given that the revised budget estimates reflect a conservative delivery and income projection with very little room for re-allocation of resources among budget lines, such accommodation can no longer be made. Upon the recommendation of the MCC, the Executive Director therefore proposes that, as called for in Financial Regulation 7.5, the Executive Board establish spending limit in an amount not exceeding 5% of the approved budget for a given biennium, when such increase is supported by unspent and/or projected income. Beyond such amount, the Executive Director would submit supplementary budget proposals in accordance with UNOPS Financial Regulations 6.7 and 6.8. Such budgetary flexibility would encompass activities under all budget components.

2. Income from services-only activities

13. UNOPS is continuing to look to broaden its activities in the provision of services in support of project execution and contracting carried out by other organizations. In the biennium 1998-1999 the provision of loan administration and project supervision services to IFAD generated $9.9 million in income, corresponding to 102 per cent of the revised target for the period. As a result of this achievement and the latest business plans, the revised target for the current biennium is $12.2 million, an increase of 23 per cent over the achievement in 1998-1999 and of 9 per cent over the original projection for 2000-2001. This is essentially due to the fact that in 1999, IFAD decided to transfer to UNOPS the supervision of 14 agricultural investment projects that were previously supervised by the World Bank in addition to 44 new projects already planned for assignment to UNOPS. Thus, the total value of new projects funded by IFAD and assigned to UNOPS supervision and loan administration increased by 129 per cent in 1999.

14. The income generated from the provision of specialized procurement services, approximately $1.4 million in 1999, is projected for 2000 at $1 million. To date, this income has been reported as income to the respective UNDP projects, thereby demonstrating the resource mobilization service that UNOPS can provide to UNDP. Starting in 2001, the income generated by this type of service will be disaggregated in the same way as services to IFAD loans.

3. Other income

15. The other elements of UNOPS income are minor and comprise mainly interest income from operating and reserve balances and other sundry and occasional sources. In 1998-1999, other income totaled $5.6 million, which included interest income and contributions from the Governments of Denmark and Switzerland to cover administrative costs relating to the offices in Copenhagen and Geneva. In the revised budget for 2000-2001, the other income is projected at $5.6 million.

B. Administrative expenditures

16. Total administrative expenditures for the biennium 1998-1999 amounted to $106.0 million, which exceeded the revised estimate of $102.6 million by $3.4 million, or 3 per cent. This total comprises recurring administrative expenditures amounting to $87.8, which represents a decrease of $0.7 million over the revised estimate of $88.5 million and non-recurring administrative expenditures of $18.2 million, which is an increase of $4.2 million over the revised budget of $14 million. During the biennium 1998-1999, income exceeded recurring administrative expenditures by $14.2 million, thereby providing for a self-financing rate for recurring expenditures at the level of 116 per cent. Major variations between the budgeted and the actual non-recurring expenditures for the information systems project and the relocation of headquarters premises are further analysed in paragraphs 33 through 39.

17. In the present revised submission for the biennium 2000-2001, the Executive Director proposes a decrease of $7.5 million in total administrative expenditures - from $113.8 million to $106.3 million. This revised total

consists of two elements: (a) recurring expenditures in the amount of $103.2 million, representing a decrease of $7.7 million, or 7 per cent, in the approved figure of $110.9 million and (b) non-recurring administrative expenditures of $3.1 million, an increase of $0.2 million over the approved amount of $2.9 million. The revised estimates reflect the need to reduce administrative costs at a rate that is consistent with the changing nature of the UNOPS portfolio, the main factor contributing in the biennium 2000-2001 to the foreseen decrease in income rate and to a lower pace of annual increase in delivery on the project portfolio.

I. Recurring expenditures

(a) Staffing resources

18. Salaries and common staff costs continue to be the largest component of the UNOPS administrative budget and to run parallel to the volume of business. During the biennium 1998-1999, the combined portfolio of development and other funds entrusted to UNOPS grew from $3.2 billion at the end of 1997 to $3.7 billion at the end of 1999. This steady growth in business volume and the related need to maintain the capacity to deliver on projects and services required some expansion in the number of personnel, comprised of both staff members against established posts and other persons employed on short-term contracts for activities of limited duration (ALD) or on special service agreements (SSAs).

19. During the 1998-1999 biennium, the staffing table financed from the administrative budget increased from 345 posts, approved by the Executive Board in its decision 98/20 of 21 September 1998, to 381 posts, approved by the Board in its decision 99/15 of 15 September 1999. For the first year of the biennium 2000-2001, this increase of 10 per cent continues to be the trend, with a new total of 419 established posts as of 1 June 2000. Table 3 shows an increase of 27 established and 11 time-bound project posts over the previously approved staffing level. The increase of 10 per cent compares to an increase of 6 per cent in total delivery from $713 million in 1998 to $756 million in 1999. The total delivery figure for the biennium 1998-1999 is $1 469 million, which comprises $1 097.7 million delivery on the project portfolio and $371.3 million of disbursements authorized by UNOPS on loans supervised and administered. In addition, with the current 2000 total delivery target set for $836 million, an additional 9.7 per cent increase over 1999, UNOPS must ensure that capacity is maintained to meet delivery targets, which translates primarily into additional staff resources.

20. The Executive Board may recall from the UNOPS budget estimates for the biennium 1996-1997 (DP/1996/36) that the establishment and abolition of posts in UNOPS do not have direct financial implications for Member States and that the staffing table merely reflects UNOPS requirements in response to fluctuations in business acquisition and corresponding delivery. The staffing table is significant only in that it establishes the types and levels of human resources that can be recruited. In meeting UNOPS business requirements, the Executive Director continues to monitor expenditures and income levels carefully to maintain a balanced budget. Thus, UNOPS personnel are a mix of staff against established posts and those holding short-term appointments, such as ALDs, with the balance between these categories of personnel varying as specific needs evolve or special requirements of a time-bound nature arise. UNOPS continues to consider that the increased number of established posts and the mix of staff against established posts and those employed under ALD contracts reflect the appropriate level of response to changing requirements. In this connection, the number of staff employed by UNOPS at the end of the 1998-1999 biennium and placed against established posts totaled 325. By 1 June 2000, this number had increased to 334. For the year 2000, overall staffing costs are projected to increase by $2.7 million over those for 1999, reflecting the establishment and filling of new posts flowing from increasing requirements as well as the regular recurring salary increases and promotions.

21. Overall personnel costs for the biennium 2000-2001, which include staff salaries and associated staff costs, payments for overtime and temporary assistance, and costs of staff employed under ALD contracts are projected to decrease from $67.5 million that were approved for the biennium to $61.8 million, a reduction of 9 per cent.

Although the revised estimates represent an increase with respect to personnel costs incurred in the biennium 1998-1999, in line with the forecasted increase in delivery on the project and services-only portfolios, they nevertheless constitute a significant cost containment. While major reductions are effected in the salaries and common staff costs categories, payments for temporary assistance and expenditures for staff under ALD contracts are projected to increase considerably. This reflects the need to manage long term commitments prudently and retain sufficient flexibility for meeting clients requirements without establishing new posts. For example, the newly established Division for Business Development and Strategic Planning, described in paragraph 25 below, and the unit to support the development of partnerships with the private sector are largely constituted by staff employed under ALD contracts, to ensure staff quality while retaining flexibility for dealing effectively with future developments.

22. As requested by the Executive Board in paragraph 7 of its decision 2000/16 of 23 June 2000, the Executive Director wishes to submit a proposal to the Board with regard to the upgrading of two existing posts from the P-5 level to the D-1 level. As mentioned in document DP/2000/25 of 13 April 2000, this request concerns adjustments that result from changes in the organizational structure of UNOPS following a functional review undertaken by UNOPS senior management in 1999.

23. First, the Executive Director seeks the approval of the Board to upgrade the post of Chief, Human Resources Management, from its current P-5 level to the D-1 level. On the basis of the recommendations of the internal functional review mentioned in paragraph 22 above, the Executive Director decided in early 2000 to separate the human resources functions from the Division for Finance and Administration and to establish a Human Resources Management Division, reporting directly to the Executive Director. The Chief, Human Resources Management Division, has a wide range of responsibilities with strategic importance *vis-à-vis* UNOPS operations. The Chief provides central leadership for global UNOPS human resources operations, including strategic planning, development of policies and oversight and monitoring of their implementation, e.g., recruitment and administration of staff, classification of posts, staff development and training, staff-management relations and compensation; retains administrative responsibility over more than 3,900 personnel worldwide, of whom 419 are charged against the administrative budget, approximately 740 are international project personnel, and approximately 2,800 are national project personnel; coordinates submissions for budgets and annual reports as well as other management reports; and represents UNOPS at inter-agency forums (e.g., the Consultative Committee on Administrative Questions - Personnel, the International Civil Service Commission, the United Nations Joint Staff Pension Board) dealing with system-wide human resources issues.

24. In addition, the issuance of the delegation of authority in personnel matters from the Administrator to the Executive Director, requested by the Executive Board in decision 99/17 of 15 September 1999 and reported on separately in document DP/2000/30, will require the Human Resources Management Division to carry higher responsibilities to enable the Executive Director to be responsive to the needs of an increasingly diversified client base and maintain accountability in personnel matters. The reclassification of the current P-5 post to the D-1 level would also recognize that within the United Nations common system, as a matter of norm, the function of Chief, Human Resources Management, generally calls for classification at the D-1 level or above. A review of the job description for the position supports the need for a reclassification to the a D-1 level.

25. Second, following the internal functional review referred to above, the Executive Director also decided to merge the corporate business planning function with business development, thereby creating the Division for Business Development and Strategic Planning (BDSP). This division incorporates the marketing and the strategic planning functions, recognizing that both functions are inextricably linked. The creation of the expanded function for business development is in response to and in keeping with the UNOPS commitment to pursue systematically and acquire an increasingly diversified client base. The division will develop key capacities in market intelligence, customer-relation management, product development and access to new markets, as well as business indicators that will help in identifying the strategic assets and needs of UNOPS. In doing so, the division will be

able to collect internal and external analyses of UNOPS clients, partners and opportunities that define the growth potential for the organization. It will also compile and assess trends among clients and sectors of intervention by the funding sources, producing competitor profiles, and pinpointing industry benchmarks for service standards. The division, in addition to supporting a market-based strategy, will also develop key corporate initiatives such as competency inventory, workflow analysis, client feedback systems, business performance reports, corporate business planning and the development of marketing strategies for UNOPS. The Chief of the division will report directly to the Executive Director. In light of the scope of the tasks and responsibilities assigned to this function, including its strategic dimension across the different operations and services divisions, a review of the job description for the position supports the need for the reclassification to the D-1 level.

26. The reclassification of the two existing P-5 posts to the higher level is anticipated to increase expenditures under the administrative budget by approximately $20,000 per annum, to be covered from UNOPS income.

27. The Executive Director requests the Executive Board to approve the establishment of 37 additional posts at the level of P-5 and below. In keeping with the practice initiated in 1998 (paragraph 27 of document DP/1998/35), the Executive Director wishes to inform the Board that the staffing table for the biennium 2000-2001 also contains a new post at the L-6 level, encumbered on a temporary, ad hoc basis by a staff member with responsibilities of resident manager of a specific project. This exceptional arrangement, made in response to the need for efficient, timely project delivery, is also in line with recommendation 9 contained in the evaluation report of the relationship between UNDP and UNOPS (DP/2000/17), in which it is suggested that UNOPS further strengthen its capacity for backstopping project personnel in the field. The Executive Director will continue to keep the Executive Board informed of any similar future arrangements if and when they become essential to respond to evolving client demands.

28. Finally, there is a significant reduction in consultants costs forecasted in the revised estimates for the biennium 2000-2001, which would bring such costs more closely in line with the corresponding expenditure in 1998-1999. This reflects an overall reduction in business activity in regions where consultants have been widely used and a change in operational strategy, whereby a more judicious reallocation of projects between divisions and decentralized offices has reduced the need for ad-hoc field facilities. The reduced estimate for training expenditures reflects a more accurate appreciation of existing competencies and of the levels of training that can be currently sustained.

(b) Other expenditures

29. The increase in the revised estimates of costs of rental and maintenance of property , which also includes utilities, reflects higher projections for offices away from headquarters. In addition, decentralized offices require investments in computer and communications systems. Therefore, the revised estimates for costs of communications usage and equipment include an increase of $1.4 million over the approved budget and of $1.1 million over the corresponding expenditure in the biennium 1998-1999. The majority (61 per cent) of the revised projection for the biennium 2000-2001 relates to headquarters, with the balance representing the continuing investment in offices away from headquarters. The widespread use of video conferencing and other electronic means of data sharing and transfer is crucial to coordinating effective delivery of high quality services to all UNOPS clients. This need is also evident from the revised estimate relating to costs of computer systems and equipment, which is below the actual expenditure for the biennium 1998-1999 but is $1.3 million higher than in the approved estimates. In this case, the offices away from headquarters account for 60 per cent of this investment.

(c) Reimbursements to UNDP for services provided

30. UNOPS compensates UNDP country offices and other organizations of the United Nations system for additional costs they incur while providing services to projects implemented by UNOPS. Such compensation totalled $6.2 million for the biennium 1998-1999 and is projected to be $7.0 million for the biennium 2000-2001.

31. In the biennium 1998-1999, payments to UNDP for central support services received, including those relating to internal audit and the UNOPS share of United Nations central services, totalled $7.1 million. This amount corresponds to a decrease of 13 per cent from the $8.1 million originally budgeted, as a result of the ongoing exercise to refine the methodology for costing central services.

32. For the biennium 2000-2001, reimbursements to UNDP for central support services provided are projected at $7.7 million, which corresponds to a 1 per cent increase relative to the approved estimates. The preoccupation with the implementation of IMIS and with the resolution of the financial reporting issue has prevented a careful re-assessment of central services and associated costs on the basis of the principles underlying the methodology for costing central services. It is expected that, as the review that has just begun progresses, additional savings similar to those attained in the 1998-1999 biennium will materialize in the biennium 2000-2001.

2. Non-recurring expenditures

(a) Information systems projects

33. In document DP/1999/39, UNOPS revised its 1998-1999 budget for non-recurring expenditures on the Y2K and IMIS implementation projects downward to $5.4 million. Actual expenditures for the biennium totalled $4.0 million, most of which went into training, backstopping, and making existing systems compatible with IMIS. The underexpenditure was due primarily to the delayed implementation of Release 4 and to the deferral of projects intended to complement or extend IMIS functionality.

34. The approved 2000-2001 budget for non-recurring expenditures includes (in 2000 only) $2.9 million for further IMIS-related costs. A slight change is proposed for this item in the revised budget, namely, an expenditure of $3.1 million in 2000. Some of the projects deferred from 1999 will be started in 2000 while the implementation of Release 4 is still anticipated for 2000.

35. As noted in document DP/1999/39, beginning in 2001, information systems activities, whether associated with IMIS or not, will be included in the recurring cost category of the budget.

(b) Relocation of headquarters premises

36. The construction and relocation process with respect to the new UNOPS headquarters is now complete. As reported in table 2 and itemized in table 4, the relocation costs for the biennium 1998-1999 total $14.1 million, i.e., $5.5 million above the revised estimate of $8.6 million approved by the Executive Board in its decision 99/15 of 15 September 1999. As it was indicated in document DP/2000/25, the convergence of several factors contributed to the difference in costs.

37. The rationale for the foreseen increase in relocations cost with respect to the original estimates made in April 1998 and approved by the Executive Board in its third regular session (decision 98/20 of 21 September 1998), was detailed in document DP/1999/39; as a consequence, the Board approved at its third regular session 1999 (decision 99/15) the revised estimate that had been made in April 1999, in the amount of $ 8.6 million. The total value of the original contracts that were signed in 1999 throughout September for site construction and related costs was $8.8 million, corresponding to a 7.6 per cent increase over the approved estimate of $8.2 million

(table 4). During the implementation of relocation, however, a number of measures inherent to the type of building selected were taken; for example, the amount of cabling had to be increased to ensure proper functioning of the communications system; and additional adjustments in site conditions (variations in ceiling heights; previously undocumented floor-slab conditions) became necessary to the installation of mechanical and electrical systems. This resulted in $2.1 million additional construction and construction-related costs, accounting for the bulk of the cost difference, or 38 per cent.

38. Furthermore, during the implementation of site-preparation activities, the original design of the premises was upgraded, and a number of enhancements were deemed necessary to avoid the cost escalation that would occur should the enhancements be completed in premises that were already established. The largest portion of the cost increase was generated from an upgrade of the electrical and air-circulating systems as well as of the telecommunications infrastructure. The total cost of enhancements is about $1.4 million, which includes $1 million for enhancements carried out during implementation of the original contracts, and $0.4 million for a better telephone system (already included in the original contract). This constitutes 25 per cent of the cost difference.

39. Of the remaining balance of $2 million, $0.5 million correspond to the new landlord's contribution budgeted in 1999 that will be received in 2000 and additional savings resulting from renegotiated contract values, all of which has been included in the total amount for other income projected for the biennium 2000-2001. The amount of $1 million, renegotiated in 2000 from $1.3 million that was budgeted in 1999, corresponds to $0.5 million in rental fees and $0.5 million in contractual penalties for leaving the old premises in the Daily News building later than projected. The final balance, in the amount of $0.5 million, that represents a 6 per cent increase over the approved estimate for the relocation costs, does represent a cost overrun. The Executive Director considers that given the characteristics of the current New York construction and construction-related market that was prevailing in 1999, a cost overrun below 10 per cent of the original projections is reasonable by most standards.

C. Movements in the UNOPS operational reserve

40. Pursuant to Executive Board decision 97/21 of 18 September 1997, the UNOPS reserve was established on the basis of the proposal contained in document DP/1997/26 and set at 4 per cent of the combined expenditure on administrative and project budgets of the prior year. After the drawdown effected at 31 December 1999 to cover non-recurring expenditure incurred in 1999, the amount in the UNOPS reserve totalled $17.4 million as of 1 January 2000, which is 30 per cent below the prescribed level of $25.0 million and 55 per cent higher than the level of $11.2 million, which was originally approved by the Board in its decision 98/20 of 21 September 1998.

41. The cost of implementing IMIS Release 4 and related costs constitute the remaining non-recurring expenditures foreseen for the year 2000. Given the business environment that prevailed in 1999 and that is anticipated to continue in 2000 and 2001 (as outlined in paragraphs 10 through 12 of the present report), UNOPS is compelled to maintain a prudent approach to income, thus to the expenditure forecast for 2000 and 2001. This includes the expectation that the non-recurrent expenditures in 2000 will be covered by a drawdown from the operational reserve in the amount of $3.1 million. A likewise conservative estimate for the year 2001 suggests that the recovery of the level of the reserve to its prescribed value will begin in the next biennium.

42. The Executive Director will keep the Executive Board informed of variations in the UNOPS business environment that may occur in 2000 and early 2001 and that may substantially affect the income projections for 2001. He is confident that cost-control measures alone, coupled with an expansion of the UNOPS services offered to a new targeted clientele, will be sufficient to bring the reserve back to its prescribed level without having to resort to increases in real terms of management fees and administrative project support costs.

III. MANAGEMENT SUMMARY

43. UNOPS resources will continue to be managed in a manner consistent with its self-financing status. Should the value of new project budgets accepted during 2000 and 2001 and fees for services rendered in the same period fall short of expectations, decisions will be made to cut costs, including staff costs, to levels compatible with the best income estimates. Such decisions will be made in full consultation with the MCC and the Executive Director will inform the Executive Board as appropriate. The recurring administrative cost is, in any case, expected to be fully funded by income derived from services provided by UNOPS in accordance with the self-financing principle.

44. Concerning the level of the operational reserve, the Executive Director will closely monitor the evolution of the UNOPS business environment during the following months to determine whether additional measures will be necessary to accelerate the replenishment of the operational reserve to its prescribed level.

IV. EXECUTIVE BOARD ACTION

45. The Executive Board may wish to:

1. Take note of the report of the Executive Director on revised budget estimates for the biennium 2000-2001 (DP/2000/37);

2. Approve the revised budget estimates for the biennium 2000-2001 in the amount of $105.8 million;

3. Decide, pursuant to UNOPS Financial Regulation 7.5, that the Executive Director shall have authority to incur expenditure, both personnel and administrative-related, in an amount not to exceed 5% of the approved budget estimates for the biennium in order to respond to unanticipated changes in business acquisition that are supported by unspent and/or projected income;

4. Recall its decision 98/20 of 21 September 1998 and approve the proposal that the planned expenditure to cover the cost of non-recurring activities in the 2000-2001 biennium be charged against the UNOPS operational reserve, noting that the drawdown required in 2000 is $0.2 million above the amount previously approved for that year;

5. Approve the staffing level as proposed for the biennium 2000-2001;

6. Approve the reclassification of two posts at the P-5 level to the D-1 level;

7. Request the Executive Director to report at the second regular session 2001 as to measures needed to restore the operational reserve to its prescribed level.

Table 1. Projections of project expenditures and income for the biennium 2000-2001, with comparative figures for the bienniums 1996-1997 and 1998-1999
(in millions of dollars)

	1996-1997 Actual	1998-1999 Actual	2000-2001 Approved estimates	2000 Revised estimates	2001 Revised estimates	2000-2001 Revised estimates
Delivery	893.9	1 097.7	1 300.0	590.0	590.0	1 180.0
Income						
Income from implementation of project portfolio	66.7	86.5	101.3	42.7	42.7	85.4
Income from "services only"	6.9	9.9	11.2	6.1	6.1	12.2
Other income	5.1	5.6	4.0	2.8	2.8	5.6
Total income	78.7	102.0	116.5	51.6	51.6	103.2
Administrative expenditures						
Recurring administrative expenditures	70.3	87.8	110.9	51.6	51.6	103.2
Non-recurring administrative expenditures	-	18.2	2.9	3.1	-	3.1
Total administrative expenditures	70.3	106.0	113.8	54.7	51.6	106.3
Unexpended resources and movements on the operational reserve	6.8	20.0	17.4	17.4	14.3	17.4
	6.2	1.4	-	-	-	-
Operational reserve brought forward						
Unexpended resources brought forward						
Transfer to operational reserve	7.0	-	2.7	-	-	-
Transfer from operational reserve	-	(2.6)	-	(3.1)	-	(3.1)
Transfer from unexpended resources	-	(1.4)	-	-	-	-
Unexpended resources carried forward	1.4	-	-	-	-	-
Operational reserve carried forward	20.0	17.4	20.1	14.3	14.3	14.3

Table 2. Revised budget estimates for the biennium 2000-2001
(in thousands of dollars)

	Object of expenditure	Actual expenditure 1998-1999	Approved estimates 2000-2001	Revised estimated expenditure 2000	Revised estimated expenditure 2001	Revised estimated expenditure 2000-2001
H10/H12	Salaries	27 846	38 118	16 923	16 923	33 846
H14-H20	Common staff costs	13 911	19 866	8 461	8 461	16 922
B10	Temporary assistance	5 078	3 675	2 079	2 079	4 158
B12/	Activities of limited duration (ALD)	5 232	5 302	3 217	3 217	6 434
B10/80	Overtime	199	576	203	203	406
B12	Consultants	2 793	7 001	1 440	1 440	2 880
B14	Training	404	1 878	434	434	868
B18	Staff travel	3 193	3 191	1 669	1 669	3 338
B16/	Contracts	1 499	2 539	896	896	1 792
B16/	System development contracts	547	480	67	67	134
B20	Printing and publications	76	-	60	60	120
B22	Rental and maintenance – premises	4 984	7 936	4 696	4 696	9 392
B22/	Utilities	24	395	-	-	-
B26	Rental and maintenance of equipment	222	243	221	221	442
B28	Communications	2 082	1 828	1 622	1 622	3 244
B38	Miscellaneous services	1 891	1 856	417	417	834
B40	Office supplies	1 503	580	313	313	626
B42	Furniture and equipment	620	503	463	463	926
B44	Computer systems equipment	2 434	855	1 090	1 090	2 180
C10	Hospitality	24	49	17	17	34
	Subtotal	74 562	96 871	44 288	44 288	88 576
B50/	Services provided by UNDP country Offices/other United Nations agencies	6 167	6 264	3 493	3 493	6 986
B50/	Reimbursement to UNDP					
	Services provided by UNDP/OAPR	1 713	1 640	870	870	1 740
	UNDP central support services	4 414	5 058	2 386	2 386	4 772
	United Nations central services	983	1 100	580	580	1 160
	Subtotal	13 277	14 062	7 329	7 329	14 658
	Information system project	4 063	2 911	3 100	-	3 100
	Relocation project	14 108	0	-	-	-
	Subtotal	18 171	2 911	3 100	-	3 100
	GRAND TOTAL	106 010	113 844	54 717	51 617	106 334

Table 3. UNOPS current staffing table

Category/Post level		Established posts[a] (including core + project) as of June 1999	Posts reclassified[a] (from 1 June 1999 until 31 May 2000)	Additional core posts[b] (from1 June 1999 until 31 May 2000)	Additional project-related Posts[c]	Grand total (as of 1 June 2000)	Posts filled by 100/200/300 series staff (as of 1 June 2000)	Vacant posts[d]
International	Core	Project						
ASG	1					1	1	
D-2	1					1	1	
D-1/L-6	14	1	2[e]	0	1	18	18	0
P-5/L-5	36	1	3 (2)	4	1	43	33	10
P-4/L-4	47		4 (3)	4	2	54	43	11
P-3/L-3	22	1	(4)	2	-	21	11	10
P-2/L-2	9	1	1	-	1	12	9	3
Subtotal	130	4	1	10	5	150	116	34
Locally recruited Principal level (G7/G6)	77	6	(1)	4	1	87	72	15
Other level	153	11	3 (3)	13	5	182	146	36
Subtotal	230	17	(1)	17	6	269	218	51
Total	360	21	0	27	11	419	334	85

[a] Executive Board decision 99/15 of 15 September

[b] Since decision 99/15.

[c] Posts strictly relating to specific

[d] Posts that are indicated as vacant include functions covered by non-staff employment (e.g., assistance) as well as posts under active

[e] Chief, Human Resources Management and Chief, Business Development and Strategic Planning (Both reclassifications from the P-5 level for which approval has been requested in the present

Table 4. Evolution of relocation cost estimates: a comparison
(in US dollars)

Type of contracts	Original estimates April 1998 approved September 1998	Revised estimates April 1999 approved September 1999	Value of original contracts	Sources of increase			Total cost	Difference revised vs. actual
				Total increase	Site/field conditions	Enhancements		
General construction	2,300,000	2,400,000	2,352,000	503,000	450,000	53,000	2,855,000	455,000
Electrical	1,100,000	1,400,000	1,920,000	1,060,000	940,000	120,000	2,980,000	1,580,000
Mechanical	1,100,000	1,700,000	1,335,000	275,000	210,000	65,000	1,610,000	-90,000
Contingency	300,000	400,000	400,000	70,000	50,000	20,000	470,000	70,000
Total basic construction	4,800,000	5,900,000	6,007,000	1,908,000	1,650,000	258,000	7,915,000	2,015,000
Upgrades	-	3,025,000	3,548,000	257,000	-70,000	327,000	3,805,000	780,000
Furnishings	1,700,000	2,060,000	2,060,000	400,000	200,000	200,000	2,460,000	400,000
Soft costs and fees	600,000	700,000	700,000	485,000	300,000	185,000	1,185,000	485,000
Subtotal - construction and upgrades	7,100,000	11,685,000	12,315,000	3,050,000	2,080,000	970,000	15,365,000	3,680,000
Landlord credits	(3,300,000)	(3,500,000)	(3,505,000)				(3,505,000)	(5,000)
Subtotal - actual costs	3,800,000	8,185,000	8,810,000	3,050,000	2,080,000	970,000	11,860,000	3,675,000
Other costs	200,000	400,000	400,000	1,010,000	0	0	1,410,000	1,010,000
Moving and storage	200,000	100,000	100,000	0	0	0	100,000	0
Staff costs	0	300,000	300,000	0			300,000	0
Rental costs and penalties for old premises	0	0	0	1,010,000			1,010,000	1,010,000
Total actual costs	4,000,000	8,585,000	9,210,000	4,060,000	2,080,000	970,000	13,270,000	4,685,000
Percentage increase relative to amount approved in September 1999			7.3%	47%	24%	11%	55%	55%
Penalties				300,000			300,000	300,000
Landlord contribution to be paid in 2000				400,000			400,000	400,000
Contract amounts reduced in 2000				138,000			138,000	138,000
Subtotal				838,000			838,000	838,000
Total costs recorded for the 1998-1999 biennium	4,000,000	8,585,000	9,210,000	4,898,000			14,108,000	5,523,000